CFS International Inc.

2003 Annual Report

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CORPORATE PROFILE

CFS International Inc. operates the largest upscale fashion wear retail chain in China under the "Ports International" and "BMW" banners, currently in May 2004 with over 280 stores in all the major cities of China. In addition, the Company markets fragrances and other fashion accessories with joint venture partners under the "Ports International" logo in China, and retails in Hong Kong and Canada.

The Company's other operations also include trading, manufacturing and wholesaling of private label and fashion garments in Canada, China and Hong Kong.

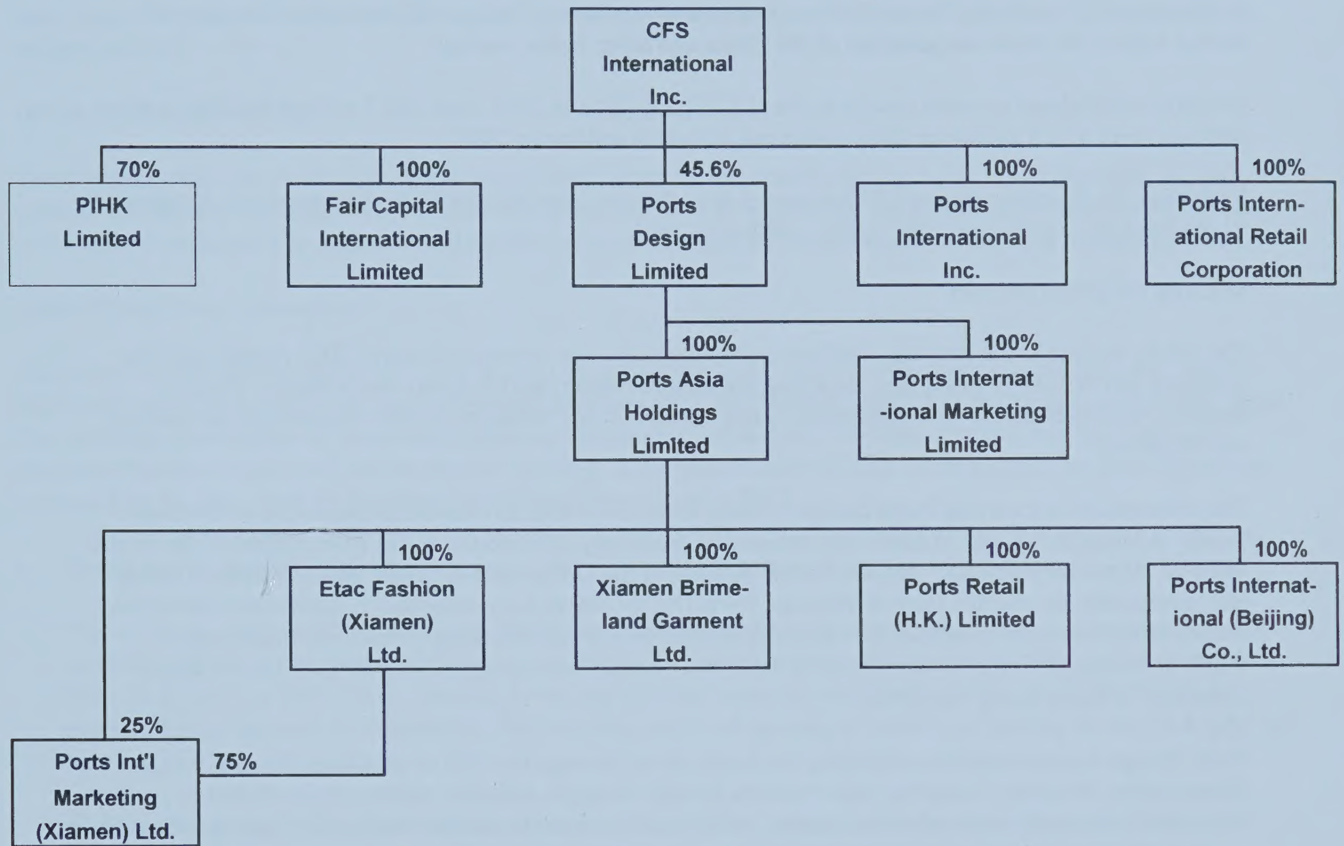
FINANCIAL HIGHLIGHTS

(thousands of Canadian Dollars, except for earnings per share and current ratios)

Operating Results	2003	2002
Consolidated revenue	$102,180	$93,718
Net earnings	23,965	6,949
Earnings per share	$0.65	$0.18

Financial Position		
Working capital	$ 87,832	$38,061
Current ratio	6.28	2.31
Long-term debt to equity ratio	--	--

CFS INTERNATIONAL INC
& Operating Subsidiaries
CORPORATE CHART
AS AT May 15, 2004



REPORT TO SHAREHOLDERS

The Company's 2003 year marked a significant milestone in the corporate history, as its perseverance to seek a listing of its China operations through their holding company Ports Design Limited ("Ports Design") on the Hong Kong Stock Exchange finally paid off. On October 25, 2003, Ports Design became a Hong Kong Stock Exchange listed company. The listing not only contributed $18.4 million in Dilution Gain to the 2003 net earnings of your Company, but more importantly, the net cash proceeds of $51.7 million and the creation of a "currency" in the publicly traded shares of Ports Design will enable the Company to further exploit the immense potential of the China and other Asian markets.

Overall, consolidated revenue rose by 9.0% to $102.2 million in 2003 from $93.7 million in 2002, and net earnings were $24.0 million in 2003 compared with $6.9 million in 2002.

Excluding the dilution gains and IPO expenses in both years, earnings from regular operations decreased by 23.6% from $7.2 million in 2002 to $5.5 million in 2003.

MAJOR EVENTS IN 2003

The SARS outbreak, the Iraq war, and the continuing economic recession in early 2003 reined back the galloping growth of the Company. On a positive note, however, the Company had a chance to take a breather, to further fortify its organization, and to reflect on the strategies before resuming its accustomed rate of growth.

The enthusiasm in receiving Ports Design's Hong Kong IPO, with an oversubscription rate of 90 times locally in Hong Kong and 15 times internationally, positively testified the world's perception of the brand value of "Ports International" and the bullish outlook of the China market. Right from the date of listing and persistently six months later to this date, Ports Design shares have consistently maintained attractive returns to its investors from their IPO price of HK$10.50 a share. We are gratified that "Asiamoney" magazine, a major financial publication in Asia, has named Ports Design to be the "Best Newly Listed Company in Hong Kong" for 2003.

Ports Design is systematically deploying the funds raised through the IPO to maximize the return to its shareholders, including exploring opportunities through strategic alliances where certain of these discussions presently are at advanced stages. Additional disclosures shall be made at the appropriate time.

OUTLOOK

In 2004, the Company has started with strong operation gains with a momentum that should continue into the future. This Company is built on commitment, entrepreneurship, excellence, and integrity, and the continuation of these principles shall perpetuate prosperity of our Company into the new era.

Edward Tan
Chairman of the Board

Alfred Chan
President

MANAGEMENT DISCUSSION AND ANALYSIS
December 31, 2003

Consolidated revenue rose 9.0% to $102.2 million in 2003 from $93.7 million in 2002. Net earnings were $24.0 million, or $0.65 per share, in 2003, compared with $6.9 million, or $0.18 per share, in 2002.

Excluding Dilution Gain and Initial Public Offering ("IPO") expenses (net of related Non-controlling Interest) in each respective year, the earnings from regular operations decreased by 23.6% from $7.2 million in 2002 to $5.5 million in 2003.

OPERATING RESULTS

The Company operates in one industry segment which involves the manufacture and sale of private label and fashion garments. Company's management evaluates the group's results by examining the geographical locations generating revenues and earnings. For statistical and discussion purposes, further breakdown of revenues is disclosed below.

China/Hong Kong Operations

China's economic growth dipped to 7.3% in 2003 from 8.0% in 2002, as the SARS outbreak, the Iraq war, and the stubbornly persisting worldwide recession in the earlier months combined to take a toll on China's economy in 2003. The resulting constriction in consumers' spending harnessed the Company's revenue growth, but the Company countered the challenges with selective store openings and expense controls, and net earnings from these operations increased by 31.7% - from $5.8 million in 2002 to $7.6 million in 2003.

- ***Retail and Manufacturing Operations***

  The revenues from the China and Hong Kong retail, wholesale and manufacturing operations decreased by 6.9% to $69.5 million in 2003 from $74.6 million in 2002. The net increase in the number of stores in China dropped from 34 in 2002 to 19 in 2003 – broken down into 6 ladies' wear stores, 6 men's stores, and 7 BMW lifestyle stores. The net increase in 19 stores in 2003 was the results of opening 67 stores and closing 48 stores during the year.

  We have invested significantly in the past two years to upgrade our manufacturing facilities to the latest technology. Today, approximately 80% of the manufacturing capacity is utilized in producing the fashion garments in our retail operation. The facilities are operating on a single-shift schedule, and can easily be expanded to a double-shift mode anytime.

- ***Trading Operation***

  The 2003 sales in our trading operation increased by 73.1% - from $18.0 million in 2002 to $31.2 million in 2003. Virtually all the growth came from the U.S. market as test orders placed by customers in past years blossomed into substantial orders for their key sales programs – a testimony that this division's abilities to deliver timely quality products were increasingly appreciated by customers. Orders from the Canadian customers held steady in 2003.

- ***Net Earnings***

  Net earnings in 2003 from the China/Hong Kong operations increased by 31.7% compared with 2002, from $5.8 million in 2002 to $7.6 million in 2003. The major items which accounted for the net decrease in 2003

compared with 2002 were as follows:

- a \$0.3 million increase in gross profit due largely to an increase in sales volume;
- a decrease of \$0.4 million in overhead costs reflecting the increased efficiency in operating;
- a decrease of 0.4 million in interest expenses as a result of a reduction in debts due to the buildup in cash balances from earnings and the successful IPO in 2003;
- \$2.3 million in professional fees incurred in 2002 seeking an IPO which were written off in that year due to the general softness of the equity market at that time;
- a receipt of \$1.1 million in tax refunds in 2003;
- an exchange loss of \$0.4 million in 2003 as term deposits in U.S. dollar suffered an exchange loss due to the strengthening of the Canadian dollar against the U.S. dollar;
- an increase of \$0.6 million in income tax expenses; and
- an increase of \$1.7 million in non-controlling interest.

Canada Operations

Revenues in Canada increased to \$0.8 million in 2003 from \$0.5 million in 2002, as the Company opened a new store on Bloor Street, Toronto, and sales of the two stores opened mid-year during 2002 in Vancouver and Montreal gathered momentum and reflected a full year of operation in 2003.

Excluding the Dilution Gain for a successful IPO in 2003 and sales of a small minority interest position in 2002, loss in the Canadian operations increased from \$0.9 million in 2002 to \$2.1 million in 2003. Such was mainly the aggregate result of a \$0.8 million increase in exchange loss due to a swing from an exchange gain of \$0.3 million in 2002 to a loss of \$0.5 million in 2003 from non-Canadian dollar denominated assets which weakened against the Canadian dollar, and an increase in loss of \$0.4 million in the retail store operations as the gain in \$0.5 million in gross profit from increased sales was insufficient to offset the \$0.9 million increase in store overheads.

On October 25, 2003, Ports Design Limited ("Ports Design") – the Company's subsidiary which owns the China operations, successfully listed its shares for trading on the Hong Kong Stock Exchange and raised \$51.7 million cash by selling 30.25 million treasury shares to the public. As a result, the Company's interest in Ports Design was diluted from 57.7% to 44.8% - a decrease of 12.9%. The Company's 44.8% share of the \$51.7 million at \$23.2 million exceeded the net book value of its 12.9% interest disposed at \$4.8 by \$18.4 million, which was reported as a one-time Dilution Gain in 2003. Later in 2003 the Company spent \$2.2 million to purchase 1 million shares of the subsidiary in the open market and increased its interest from 44.8% to 45.6% - an increase of 0.8%. The \$2.2 million purchase price exceeded 0.8% of the subsidiary's fair values attributed to the underlying net assets by \$1.6 million, which was reported as Goodwill on the Company's consolidated financial statements.

FINANCIAL POSITION

Working capital increased from \$38.1 million at the end of 2002 to \$87.8 million at the end of 2003. Operating components: receivables net of accounts payable increased proportionately with the sales increase. Cash and short-term investments improved by \$36.3 million during 2003, from \$21.7 million at 2002 year-end to \$58.0 million at

2003 year-end, and the $11.7 million in bank indebtedness at the end of 2002 was completely paid off by the end of 2003.

The capital spending in 2003 was $5.1 million, as compared with $7.7 million in 2002. The reduction reflected the decrease in new store openings between the two years, and the tail end spending in completing the Xiamen warehouse/ factory facilities and the Beijing warehouse/distribution centre in 2003.

Working capital ratio improved from 2.31:1 at the end of 2002 to 6.28:1 at the end of 2003.

RISKS AND UNCERTAINTIES

At present, most of the Company's resources are invested in the operations situated in China and Hong Kong.

Investments in and results from such foreign operations are exposed to the risks of foreign exchange, and uncertainties of operating in different political, legal, social and economic environments.

We have taken steps to minimize such risks, and investing most of the surplus cash in U.S. dollar and Canadian dollar denominated liquid investments.

We believe we have the necessary business experience in China and Hong Kong to control all such risks to a commercially acceptable and prudent minimum.

MANAGEMENT DISCUSSION AND ANALYSIS
Operating Results
Year Ended December 31, 2003 Comparative with 2002
(Thousands of Canadian $'s)

Operating Results		2003	% of Total		2002	% of Total	2003/2002 % Change
Revenue - Operations							
Retail, Wholesale & Manufacturing							
- China/Hong Kong	$	69,495	68.0%	$	74,647	79.7%	-6.9%
Trading - China/Hong Kong		31,170	30.5%		18,010	19.2%	73.1%
Wholesale & Retail - Canada		779	0.8%		430	0.4%	81.2%
Sundry - China/HK		689	0.6%		533	0.6%	29.3%
- Canada		46	0.1%		98	0.1%	-53.1%
		102,179	100.0%		93,718	100.0%	9.0%
Revenue - Geographical							
China/Hong Kong		101,354	99.1%		93,190	99.4%	8.8%
Canada		825	0.9%		528	0.6%	56.3%
		102,179	100.0%		93,718	100.0%	9.0%
Net Earnings (Loss)							
China/Hong Kong		7,601	31.7%		5,758	82.9%	32.0%
Canada		16,364	68.3%		1,191	17.1%	1274.0%
	$	23,965	100.0%	$	6,949	100.0%	244.9%

BRITISH COLUMBIA SECURITIES COMMISSION
Form 51-901F: Schedule B
Supplementary Information
Year Ended December 31, 2003

Breakdown of major expenditures in excess of 10% in each category – Jan. 1 to Dec. 31, 2003:

- Cost of sales:

Opening inventories	$31,182,436
Finished goods purchased	27,781,954
Materials, labour and direct overhead	13,359,466
Closing inventories	(29,589,814)
Total	$42,734,042

- Selling, general and administrative:

Rent, business and realty taxes	$ 18,089,383
Salaries, commission and employee benefits	8,613,497
Travel and entertainment	1,134,341
Bank charges	473,362
Professional fees	367,225
Management fees	180,000
Utilities and telephone	472,399
Delivery and transportation	800,561
Advertising and promotion	5,039,493
Office and miscellaneous expenses	2,107,756
Sales surtax	61,077
Inventory write down	3,583,498
Total	$40,922,592

2. Related Party Transactions:
During the year 2003, an amount of $180,000 in management fee was paid to an affiliated company with common directors.

Securities and options for the year ended December 31, 2003

(a) Issuance
No new shares were issued during the year.

(b) Options granted
No new options were granted during the year.

As at the end of the 4th Quarter of 2003 (i.e., December 31, 2003)

(a) Authorized share capital: 100,000,000 common shares without par value
20,000,000 non-voting preferred shares

(b) Shares issued & outstanding: 36,529,076 common shares

(c) Outstanding employee stock option to purchase 1 common share each option:
Number of options: 700,000
Exercise price: $1.62 per share
Expiry date: October 28, 2008

(d) Shares in escrow or subject to a pooling agreement: None

Directors:
Edward H.K. Tan
Yan Poe Wong
Alfred K.T. Chan
Robert Gan
Julie A. Enfield

Officers:
Edward H.K. Tan
Chairman of the Board

Alfred K.T. Chan
President & CEO

Alec Lam
Director of Finance

Peter Bourque
Vice President, Export

Victoria Chan
Assistant Vice President
Marketing, Far East Region

Illona Sun
Secretary & Controller

Peter Leung
Treasurer

Mintz & Partners LLP

AUDITORS' REPORT

To The Shareholders of
CFS International Inc.

We have audited the consolidated balance sheets of CFS International Inc. as at December 31, 2003 and 2002 and the consolidated statements of retained earnings, operations and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 7 2004

Mintz & Partners LLP.
CHARTERED ACCOUNTANTS

CFS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

AS AT DECEMBER 31	2003	2002
ASSETS		
CURRENT		
Cash and cash equivalents	$ 41,141,449	$ 18,469,883
Short-term investments (Note 4)	16,821,772	3,260,122
Accounts receivable	16,845,517	14,039,612
Inventories (Note 5)	29,589,814	31,182,436
Advances to affiliates (Note 6)	-	90,144
Prepaid expenses	58,713	167,359
	104,457,265	67,209,556
PROPERTY, PLANT AND EQUIPMENT (Note 7)	16,198,588	16,826,004
INTANGIBLE ASSET (Note 8)	120,901	138,173
GOODWILL (Note 9)	1,555,204	-
FUTURE INCOME TAXES (Note 13)	546,833	1,080,782
	$122,878,791	$ 85,254,515
LIABILITIES		
CURRENT		
Bank indebtedness (Note 10)	$ -	$ 11,701,783
Accounts payable and accrued liabilities	14,770,656	14,459,339
Advances from affiliates (Note 6)	833,209	762,127
Income taxes payable	1,021,899	2,225,153
	16,625,764	29,148,402
NON-CONTROLLING INTEREST	51,648,257	17,504,270
	68,274,021	46,652,672
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 11)	16,559,326	17,010,101
CUMULATIVE TRANSLATION ADJUSTMENT	(4,135,210)	2,191,056
RETAINED EARNINGS	42,180,654	19,400,686
	54,604,770	38,601,843
	$122,878,791	$ 85,254,515

APPROVED ON BEHALF OF THE BOARD:

__________________________ Director

__________________________ Director

See Accompanying Notes

CFS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
DECEMBER 31, 2003 AND 2002

FOR THE YEARS ENDED DECEMBER 31	2003	2002
RETAINED EARNINGS - Beginning of year	$ 19,400,686	$ 13,535,508
Net income	23,965,088	6,949,114
Excess cost over assigned value in shares repurchased	(1,185,120)	(1,083,936)
RETAINED EARNINGS - End of year	$ 42,180,654	$ 19,400,686

See Accompanying Notes

CFS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
DECEMBER 31, 2003 AND 2002

FOR THE YEARS ENDED DECEMBER 31	2003	2002
Revenue:		
Sales	$101,509,091	$ 93,087,870
Interest	172,009	208,452
Other	498,452	421,684
	102,179,552	93,718,006
Expenses:		
Cost of sales	42,734,042	34,922,983
Selling, general and administrative	40,922,592	41,097,952
Interest	300,179	746,053
Amortization	2,781,587	2,290,801
	86,738,400	79,057,789
Income from operations	15,441,152	14,660,217
Other income (loss):		
Loss on sale of property, plant and equipment	(105,969)	(29,015)
(Loss) gain on foreign exchange	(822,466)	368,041
Dilution gain on subsidiary share issuance (Note 14)	18,431,075	2,095,931
Expenses on proposed initial public offering of subsidiary shares (Note 15)	-	(2,305,837)
	17,502,640	129,120
Income from operations before income taxes and non-controlling interest	32,943,792	14,789,337
Income taxes (Note 13)		
Current	1,049,167	2,682,875
Cost (benefit) of future income taxes	365,942	(781,053)
	1,415,109	1,901,822
Income from operations before non-controlling interest	31,528,683	12,887,515
Non-controlling interest	(7,563,595)	(5,938,401)
NET INCOME	$ 23,965,088	$ 6,949,114
Earnings per share (Note 17)		
Basic	$ 0.6511	$ 0.1828
Diluted	$ 0.6476	$ 0.1824

See Accompanying Notes

CFS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
DECEMBER 31, 2003 AND 2002

FOR THE YEARS ENDED DECEMBER 31	2003	2002
CASH FLOWS FROM OPERATIONS:		
Operating activities:		
Net Income	$ 23,965,088	$ 6,949,114
Items not involving cash		
Future income taxes	365,942	(781,053)
Non-controlling interest	7,563,595	5,938,401
Amortization	2,781,587	2,290,801
Loss on sale of property, plant and equipment	105,969	29,015
Dilution gain on subsidiary share issuance	(18,431,075)	(2,095,931)
Change in non-cash working capital balances (Note 21)	(8,071,450)	(1,978,078)
CASH PROVIDED BY OPERATIONS	8,279,656	10,352,269
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in bank indebtedness	(10,383,898)	(1,723,392)
Dividend paid by a subsidiary to non-controlling interest	(2,319,033)	(1,480,134)
Issuance of capital stock	-	45,000
Shares repurchased	(1,635,895)	(1,594,780)
Proceeds from issuance of shares by subsidiary	51,691,617	3,925,029
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	37,352,791	(828,277)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances from affiliates, net	151,210	207,539
Proceeds on sale of property, plant and equipment	7,888	509,688
Purchase of property, plant and equipment	(5,112,045)	(7,713,410)
Increase in short-term investments	(14,985,547)	(779,141)
Investment in shares of subsidiary	(2,239,035)	-
CASH USED IN INVESTING ACTIVITIES	(22,177,529)	(7,775,324)
Increase in cash and cash equivalents	23,454,918	1,748,668
CASH AND CASH EQUIVALENTS - Beginning of year	18,469,883	16,851,688
Foreign exchange loss on cash held in foreign currencies	(783,352)	(130,473)
CASH AND CASH EQUIVALENTS - End of year	$ 41,141,449	$ 18,469,883

See Accompanying Notes

1. NATURE OF ORGANIZATION

CFS International Inc. (the "Company") manufactures garments and other textile products in the People's Republic of China ("PRC") and sells in Canada, Hong Kong and the PRC.

The activities of the company in PRC are carried out through Ports Design Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company's PRC operations are subject to various considerations and risks of operating in PRC. These include risks and uncertainties associated with the political and economic environment, the foreign country exchange system and the legal system in PRC. PRC does not have a comprehensive system of laws and the enforcement of its existing laws may be uncertain and sporadic. Any changes in the policies, laws, regulations or interpretation thereof by the PRC government could adversely affect the operations of the Company's PRC subsidiaries.

2. REORGANIZATION

On December 20, 2002, a subsidiary of the Company, Brimeland Company Limited, was wound up voluntarily and its remaining assets (consisting of shares in Ports Asia Holdings Limited and PIHK Limited) were distributed to its shareholders at carrying value of approximately $11M, resulting in no gain or loss.

Also during 2002, to facilitate the process of obtaining a listing of the shares of the holding company of the PRC operations for trading on the Hong Kong Stock Exchange, a new company, Ports Design Limited ("Design"), was incorporated and the shareholders of Ports Asia Holdings Limited (formerly known as Smythe Capital Incorporated) rolled their shares into Design in return for shares in Design. Ports Design Limited as a result owns 100% of Ports Asia Holdings Limited

The above transactions resulted in no substantive change in ownership interests of either the Company or the non-controlling shareholders. Accordingly, the reorganization has been accounted for using the continuity of interests approach.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries in Canada, Hong Kong and PRC. All significant intercompany accounts and transactions have been eliminated. The most significant subsidiary is Ports Design Limited (45.6% owned). Ports Design Limited owns 100% of Ports Asia Holdings Limited (formerly known as Smythe Capital Incorporated) which has the following significant wholly owned subsidiaries: Etac Fashion (Xiamen) Ltd., Xiamen Xiangyu Ports Trading Co. Ltd., Xiamen Brimeland Garments Ltd., Ports International (Beijing) Co. Ltd, Ports International Marketing (Xiamen) Ltd. and Ports Retail (H.K.) Limited.

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3. **SIGNIFICANT ACCOUNTING POLICIES** – Continued

b) Revenue Recognition:

i) Sale of goods

Retail sales of goods are recognized when the goods are delivered or title to the goods passes to the customers. It is arrived at after deduction of any sales returns and discounts.

ii) Rental income

Rental income is recognized on an accrual basis.

iii) Interest income

Interest income earned on short term investments is recorded on an accrual basis.

iv) Other services

Revenue from services rendered is recognized when the service is rendered.

c) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash balances and short-term deposits with an original term to maturity of less than 90 days.

d) Inventories:

Raw materials are stated at the lower of cost, on the weighted average cost basis, and replacement cost.

Inventories of finished goods and work in progress are valued at the lower of cost, on weighted average cost basis, and net realizable value.

e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is recorded using the following annual rates on a straight-line basis to amortize the cost of these assets over their estimated useful lives:

Investment properties	2%
Land rights and buildings	2% - 5%
Computer, furniture and fixtures, automobiles and others	20% - 33 1/3%
Leasehold improvements	20%-33%
Plant and machinery	5% - 20%

/Continued…

3. **SIGNIFICANT ACCOUNTING POLICIES** – Continued

e) Property, plant and equipment - continued

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for purposes of earning rental income.

Cost of construction in progress includes the cost of materials, direct labour and overhead directly attributable to the construction. Construction in progress is transferred to land rights and buildings once completed and are then amortized.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as capital leases. Buildings acquired by way of capital leases are stated at an amount equal to the lower of its fair value and present value of the minimum lease payments at inception of the lease, less accumulated amortization and impairment, if any.

f) Intangible asset:

The intangible asset consists of a trade mark acquired by the company and is stated at cost less accumulated amortization. Amortization is provided for on a straight line basis over 10 years. The company determines the future earnings to be derived from the trade mark on a year to year basis. If the company determines that future earnings may not be realized as anticipated, an appropriate amount of the unamortized balance of trade mark will be charged to income at that time.

g) Goodwill:

Goodwill represents the excess of the purchase price over the share of the fair values attributed to underlying net assets of additional shares of the subsidiary, Ports Design Limited, acquired during the year. Goodwill is not amortized but is subject to an annual impairment test. Goodwill impairment is evaluated between annual tests upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of a reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill. When the carrying amount of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. If the company determines that there is a permanent impairment in the value of goodwill, an appropriate amount will be charged to income as an "impairment charge" at that time.

h) Income taxes:

Income taxes are provided at current rates for all items included in the statement of operations regardless of the period in which such items are reported for income tax purposes. The principal items which result in temporary differences between financial and tax reporting purposes are amortization of property, plant and equipment and reserve on inventory. Future income taxes are adjusted for current changes in income tax rates.

Future income tax assets are recorded to the extent that management believes that it is more likely than not that benefits arising in respect of deductible temporary differences and carry forward of unused tax losses will be able to be used in the carry-forward periods.

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3. **SIGNIFICANT ACCOUNTING POLICIES** – Continued

i) Translation of foreign currencies:

The assets and liabilities of the Company's Hong Kong and PRC subsidiaries, which are considered to be self-sustaining operations, are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates. Revenues and expenses of these subsidiaries are translated at the average exchange rate for the year. Exchange gains and losses arising from the translation of the subsidiaries' financial statements are included in the cumulative adjustment account in shareholders' equity.

Transactions in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the time of such transactions. Translation gains and losses on foreign currency transactions are included in the determination of earnings for the year.

j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported years. Actual results could differ from those estimates.

k) Stock-based compensation plans:

Effective January 1, 2002, the Company adopted Section 3870 ("Stock-Based Compensation and Other Stock-Based Payments") of the C.I.C.A. Handbook. As permitted by Section 3870, the company has applied this change prospectively for new awards granted on or after January 1, 2002. In periods prior to January 1, 2002, the company recognized no compensation when stock options or warrants were issued to employees or non-employees.

Employees

The company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. Pro-forma net income and earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation cost, are provided. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Non-employees

For stock-based compensation issued to non-employees, the Company recognizes an asset or expense based on the fair value of the equity instrument issued.

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4. SHORT-TERM INVESTMENTS

Short-term investments have yields ranging from 1.10% to 1.70% (2002 – 1.06% to 2.60% p.a.) per annum.

5. INVENTORIES

	2003	2002
Raw materials	$ 6,818,728	$ 6,290,199
Work in progress	1,607,878	1,789,354
Finished goods	20,878,630	22,642,904
Goods in transit	284,578	459,979
	$ 29,589,814	$ 31,182,436

6. ADVANCES TO (FROM) AFFILIATES

As at December 31, 2003 and 2002, the Company has advances outstanding to (from) affiliates as follows:

	2003	2003
Receivable from a minority shareholder of a subsidiary	$ -	$ 90,144
Payable to EPL International Inc., a company with common directors	$ 833,209	$ 762,127

The above amounts are unsecured, non-interest bearing with no fixed terms of repayment, except for the amount receivable from a minority shareholder which is repayable on demand.

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7. PROPERTY, PLANT AND EQUIPMENT

	2003		
	Cost	Accumulated Amortization	Net Book Value
Investment properties	$ 361,675	$ 14,467	$ 347,208
Land rights and buildings	9,824,350	1,077,561	8,746,789
Computer, furniture and fixtures, automobiles and other	8,035,451	3,541,918	4,493,533
Leasehold improvements	1,208,885	250,733	958,152
Plant and machinery	2,803,672	1,357,760	1,445,912
Construction in progress	206,994	-	206,994
	$ 22,441,027	$ 6,242,439	$ 16,198,588

	2002		
	Cost	Accumulated Amortization	Net Book Value
Investment properties	$ 361,675	$ 7,233	$ 354,442
Land rights and buildings	9,492,529	886,407	8,606,122
Computer, furniture and fixtures, automobiles and other	7,110,756	2,834,754	4,276,002
Leasehold improvements	1,182,334	279,800	902,534
Plant and machinery	2,675,662	1,463,504	1,212,158
Construction in progress	1,474,746	-	1,474,746
	$ 22,297,702	$ 5,471,698	$ 16,826,004

Investment properties and land rights and buildings are held in PRC and Hong Kong under long- term leases. Land rights represent payouts made for the use of land on which the buildings are located.

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7. **PROPERTY, PLANT AND EQUIPEMENT** – Continued

As at December 31, 2003, the net book value of a building held under a capital lease arrangement by the company's PRC subsidiaries amounted to $660,562 (2002 - $859,229). The corresponding capital lease obligation has been fully settled as at December 31, 2002.

8. **INTANGIBLE ASSET**

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Trade mark	$ 172,717	$ 51,816	$ 120,901	$ 138,173

9. **ACQUISITION**

The Company accounted for the additional 0.74% investment in the shares of its subsidiary, Ports Design Limited, as a step acquisition using the purchase method of accounting.

The purchase price of $2,239,035, which was paid in cash, was allocated as follows:

Current assets	$ 673,706
Property, plant and equipment	89,542
Goodwill	1,555,204
Future income taxes	5,393
Current liabilities	(84,810)
Purchase price	$ 2,239,035

10. **BANK INDEBTEDNESS**

In 2002, the bank loans of $11,701,783 were unsecured and bear interest at rates ranging from 3.00% to 5.29% per annum.

11. **CAPITAL STOCK**

The authorized share capital of the Company consists of 100,000,000 common shares without par value and 20,000,000 non-voting preferred shares, redeemable and convertible at terms to be determined by the Company's directors.

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11. CAPITAL STOCK - Continued

The issued share capital of the Company consist of the following common shares:

	Number of Shares	Amount
Balance as at January 1, 2002	38,474,276	$ 17,475,945
Shares repurchased and cancelled	(1,137,900)	(510,844)
Stock options exercised	180,000	45,000
Balance as at December 31, 2002	37,516,376	17,010,101
Shares repurchased and cancelled	(987,300)	(450,775)
Balance as of December 31, 2003	36,529,076	$ 16,559,326

12. STOCK-BASED COMPENSATION PLAN

a) Stock option plan

During 1996, the Company granted options to certain employees and directors to purchase 700,000 common shares at a price of $0.25 per share. The options were vested as to one-third during each of the first three years after the option was granted and were exercisable up to June 7, 2003. These options were all exercised as at December 31, 2002.

During 2002, the Company granted options to certain employees and directors to purchase 700,000 common shares at a price of $1.62 per share. The options vest as to one-third on October 29, 2002 and on each of the following two year anniversaries and are exercisable up to October 28, 2008.

During 2003, under the terms of a Share Option Scheme, the Company's subsidiary, Ports Design Limited, granted options to certain employees and directors to purchase 3,500,000 common shares at a price of HK$10.50 per share. The options vest as to one-third on each of the first, second and third anniversary dates of the offer and are exercisable up to November 2, 2013.

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12. STOCK-BASED COMPENSATION PLAN - Continued

b) Stock options

A summary of the status of the Company's and its subsidiary's stock option plan as of December 31, 2003 and 2002 and changes during the years ended on those dates is presented below:

CFS International Inc.

	2003		2002	
Stock options	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Outstanding, beginning of year	700,000	$ 1.62	180,000	$ 0.25
Granted	-		700,000	$ 1.62
Exercised	-		(180,000)	
Outstanding, end of year	700,000	$ 1.62	700,000	$ 1.62
Options exercisable, end of year	233,333		233,333	

Ports Design Limited

	2003	
Stock options	Options	Weighted Average Exercise price
Granted and outstanding, end of year	3,500,000	HK $ 10.50
Options exercisable, end of year	Nil	

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12. STOCK-BASED COMPENSATION PLAN - Continued

c) Fair Value

In accordance with the CICA Handbook Section 3870, the Company discloses pro forma net income and earnings per share as if the Company had accounted for employee stock options under the fair value method. The Company has applied the pro forma disclosures provisions of the standard to awards granted on or after January 1, 2002.

The fair value of the options issued by the Company and its subsidiary was determined using the Black-Scholes option pricing model.

The Company used the following weighted average assumptions for its options: risk-free rate of 2.50%; dividend yield of 0%; a volatility factor of the expected market price of the Company's shares of 195%; and an expected option life of 6 years. The weighted average grant date fair values of stock options issued in the prior year has been estimated at $1.58 per share.

The company used the following weighted average assumptions for options issued by its subsidiary: risk-free rate of 1.40%; dividend yield of 0%; a volatility factor of the expected market price of the subsidiary shares of 6.9%; and an expected option life of 10 years. The weighted average grant date fair values of stock option issued during the year has been estimated at $0.77 per share.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to income over the vesting period, on a straight line basis. For the year ended December 31, 2003, the Company's pro-forma net income under Canadian generally accepted accounting principles would be reduced by $344,086 (2002 -$45,937) and the basic earnings per share and diluted earnings per share would have been $$0.6417 and $0.6383 respectively (2002 - $0.1815 and $0.1812 respectively).

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13. INCOME TAXES

The differences between taxes calculated by applying the statutory rates to earnings and taxes recorded in the accounts are as follows:

	2003	2002
Canadian statutory income tax rate	36.6%	38.6%
Income from operations before income taxes and non-controlling interest	$ 32,943,792	$ 14,789,337
Less: Dilution gain on subsidiary share issuance not subject to tax	(18,431,075)	(2,095,931)
	14,512,717	12,693,406
Taxes at statutory rate	5,311,654	4,899,655
Foreign income taxed at lower rate	(2,396,934)	(2,825,858)
Income tax refund included in income tax provision	(1,115,052)	(557,641)
Losses for which recoveries not provided	289,172	374,769
Income tax reduction due to losses from previous years	(685,187)	-
Other	11,456	10,897
	$ 1,415,109	$ 1,901,822

A subsidiary of the Company was granted tax refunds amounting to RMB 6,585,862 (2002 – RMB 2,938,662) during the year pursuant to relevant PRC tax law and regulations applicable to re-investment of profits earned.

The Company and its subsidiaries have non-capital tax losses of approximately $8,200,000 (2002 - $7,000,000) available in Canada, PRC and Hong Kong to reduce taxes payable in future years.

The losses expire as follows:

Canada, up to 2010	$ 6,800,000
PRC and Hong Kong, carried forward for indefinite period	5,500,000
	$ 12,300,000

The benefit of these losses have not been reflected in the financial statements except for $375,000 (2002 - $686,000) by companies in the PRC.

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13. INCOME TAXES - Continued

Future income taxes reflected on the balance sheet comprise of:

	2003	2002
Losses carried forward	$ 3,559,137	$ 2,302,880
Inventory provisions	480,479	963,774
Other items	7,217	14,128
	4,046,833	3,280,782
Valuation allowance	(3,500,000)	(2,200,000)
Net future income tax asset	$ 546,833	$ 1,080,782

14. DILUTION GAIN ON SUBSIDIARY SHARE ISSUANCE

During the year, a subsidiary company controlling all the interests of the China operations issued 30,250,000 new shares from treasury in a Public Offering for the equivalent of approximately $51.7 million (Canadian funds) in subscription price. As a result, the Company reported a gain of $18.4 million before tax, representing its proportionate share of the share subscription proceeds in excess of its proportionate share of net book value of the subsidiary at the date of transaction. With the additional share issuance, the Company's indirect interest in the subsidiary was diluted from 57.7% to 44.8%.

In 2002, the same subsidiary company issued additional shares from treasury to a non-controlling shareholder for the equivalent of approximately $3.9 million (Canadian funds) in subscription price. As a result, the Company reported a gain of $2.0 million before tax, representing its proportionate share of the share subscription proceeds in excess of its proportionate share of net book value of the subsidiary at the date of transaction. With the additional share issuance, the Company's indirect interest in the subsidiary was diluted from 60.9% to 57.7%.

15. EXPENSES ON PROPOSED INITIAL PUBLIC OFFERING OF SUBSIDIARY SHARES

In 2002, a subsidiary of the Company incurred approximately $2.3 million in professional fees in the preliminary due diligence process to obtain a listing of its shares for trading on the Hong Kong Stock Exchange. The proposed initial offering was delayed due to adverse market conditions. As there was no certainty that the proposed offering would proceed in the future, management decided to write off these expenses during the 2002 fiscal year.

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16. EMPLOYEE FUTURE BENEFITS

The employees of subsidiaries in PRC and Hong Kong participate in defined contribution plans organized by the local government. During the year, the company contributed and expensed $326,387 (2002 - $313,130).

17. EARNINGS PER SHARE

a) Basic earnings per share

Earnings per share is calculated on the basis of the weighted average number of common shares outstanding for the year which amount to 36,807,409 (2002 – 38,024,159)

b) Diluted earnings per share

Diluted earnings per share reflects the dilutive effect of the exercise of the granted options outstanding at December 31, 2003. The number of shares for the diluted earnings per share calculation determined in accordance with the directions of the Handbook of the Canadian Institute of Chartered Accountants is $37,003,409 (2002 - 38,094,159).

18. RELATED PARTY TRANSACTIONS

The Company paid management fees to a company with common directors in the amount of $180,000 (2002- $180,000). This transaction was recorded at the exchange amount agreed by the parties.

Prior to the wind up of Brimeland Company Limited (Note 2), investment property was sold to a company with common directors at the carrying amount of approximately $210,000.

19. LEASE COMMITMENTS

The Company has the following lease commitments:

a) Operating lease commitments:

Minimum lease payments, under non-cancellable operating leases not provided for, are payable as follows:

2004	$ 6,078,000
2005	3,496,000
2006	1,474,000
2007	1,116,000
2008 and thereafter	6,135,000
	$ 18,299,000

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19. LEASE COMMITMENTS - Continued

b) Capital commitments:

Capital commitments outstanding at December 31, 2003 and 2002, but not provided for in the account, are as follows:

	2003	2002
Authorized but not contracted for	$ 18,732,000	$ 8,929,178

20. SEGMENTED INFORMATION

a) Reportable segments

The operating results of the Company's business segments are regularly reviewed by the Company's chief operating decision makers. The business segments are based on the Company's management and internal reporting structure. As of December 31, 2003, the Company had two principal business segments: retail and original equipment manufacturer ("OEM"). Segment results, assets and sales include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest bearing loans, borrowing and expenses, and corporate assets and expenses. Information that is readily available to the chief operating decision makers is as follows:

	2003	2002
Sales		
Retail	$ 64,947,387	$ 62,366,703
OEM	28,483,029	23,090,321
Unallocated	8,078,675	7,630,846
	$ 101,509,091	$ 93,087,870
Segmented result:		
Retail	$ 16,483,960	$ 17,073,535
OEM	1,109,750	1,340,270
	17,593,710	18,413,805
Unallocated operating income and expenses	(2,152,558)	(3,753,588)
Income from operations	15,441,152	14,660,217
Other income	17,502,640	129,120
Income taxes	(1,415,109)	(1,901,822)
Income from operations before non-controlling interest	31,528,683	12,887,515
Non-controlling interest	(7,563,595)	(5,938,401)
Net income	$ 23,965,088	$ 6,949,114

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20. SEGMENTED INFORMATION - Continued

a) Reportable segments - Continued

	2003	2002
Segment assets		
Retail	$ 51,221,431	$ 56,196,618
OEM	6,167,312	4,587,903
Unallocated	65,490,048	24,469,994
	$ 122,878,791	$ 85,254,515

	2003	2002
Amortization		
Retail	$ 2,475,338	$ 2,006,305
OEM	17,665	-
Unallocated	288,584	284,496
	$ 2,781,587	$ 2,290,801

b) Geographic information

	2003	2002
Revenue from operations:		
Hong Kong and PRC	$ 101,354,475	$ 93,189,993
Canada	825,077	528,013
	$ 102,179,552	$ 93,718,006
Capital assets:		
Hong Kong and PRC	$ 15,209,234	$ 16,036,128
Canada	989,354	789,876
	$ 16,198,588	$ 16,826,004

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21. SUPPLEMENTARY CASH FLOW INFORMATION

a) The components of the movement in non-cash working capital balances are as follows:

	2003	2002
Continuing operations:		
Accounts receivable	$ (5,908,266)	$ (2,619,557)
Inventories	(4,320,766)	(4,816,737)
Prepaid expenses	95,666	(4,382)
Accounts payable and accrued liabilities	2,928,340	3,561,961
Income taxes payable	(866,424)	1,900,637
	$ (8,071,450)	$ (1,978,078)

b) Other cash flow information is as follows:

	2003	2002
Income taxes paid	$ 3,033,621	$ 1,324,739
Interest paid	$ 300,179	$ 746,053

22. FINANCIAL INSTRUMENTS

Fair value

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and advances to/from affiliates approximate their fair value due to the relatively short periods to maturity of the instruments.

Interest Rate risk

The interest rates and terms of repayment of the bank loans of the Group are disclosed in Note 10 above.

Foreign Currency Risk

The Group has foreign currency risk as certain loans and cash are denominated in foreign currencies, Hong Kong dollars, Renminbi and US dollars. Depreciation or appreciation of the Canadian dollar against foreign currencies affects the Group's results of operations.

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22. FINANCIAL INSTRUMENTS - Continued

Credit risk

The accounts receivable of the Group are spread among a number of customers. Management have a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there were no significant concentrations of credit risk.

23. CONTINGENT LIABILITY

The company is contingently liable for a claim of approximately $190,000 arising on a leasehold improvement contract. As this matter is at the pleadings stage and a counterclaim has been filed, the ultimate amount of the loss, if any, is not determinable at the date of these financial statements.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statements presentation.

CORPORATE DIRECTORY

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Corporate Office:
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Canada. M3B 2M3

Directors

Edward H.K. Tan
Toronto, Ontario.

Alfred K.T. Chan
Toronto, Ontario.

Julie A. Enfield
Toronto, Ontario.

Yan Poe Wong
Toronto, Ontario.

Robert Gan
Toronto, Ontario.

Officers

Edward H.K. Tan
Chairman of the Board

Alfred K.T. Chan
President and Chief Executive Officer

Alec Lam
Director of Finance

Peter Bourque
Vice President, Exports

Victoria Chan
Assistant Vice President, Marketing
Far East Region

Illona Sun
Secretary and Controller

Peter Leung
Treasurer

Auditors

Mintz & Partners LLP
Toronto, Ontario, Canada.

Legal Counsel

Macleod Dixon
Calgary, Alberta.

Bankers

Canadian Imperial Bank of Commerce

Registrar and Transfer Agent

CIBC-Mellon Trust Company
Calgary, Alberta.

Shares Listed (Symbol CFY)

TSX Venture Exchange